

S E C T I O N

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## **Retiree health benefits**

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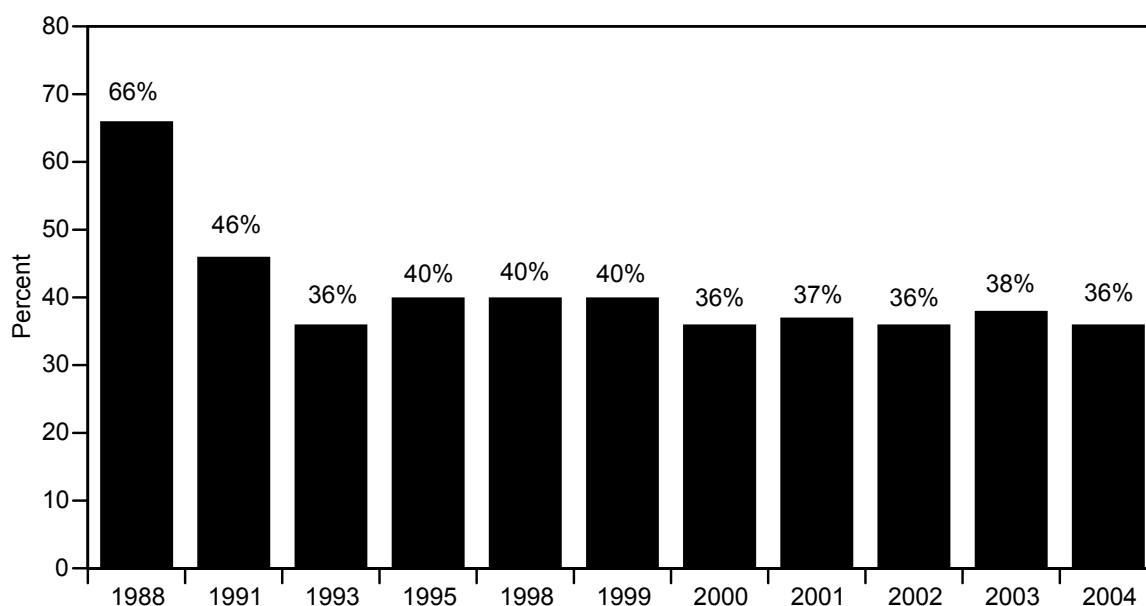
## **Retiree health benefits, 2004: MedPAC's supplement to the Kaiser/HRET survey of employer-sponsored health benefits**

Employer-sponsored supplemental health benefits have been a primary source of supplemental coverage for Medicare beneficiaries for decades. To learn more about how retiree health benefits are changing, MedPAC sponsored a supplement to the 2004 HRET survey of employers, which is a stratified nationally representative sample of private and non-federal public firms of all sizes. To address questions about firms offering retiree benefits, we examined firm-level data, weighted by firm size to produce nationally representative information. The supplement was designed to explore retiree health coverage and benefits structure, and how changes that are taking place may affect Medicare beneficiaries' supplemental coverage over time.

The survey focused in particular on collecting information that is not available from other surveys, including whether active employees will be eligible for the benefits that Medicare-age retirees now receive, and how much of the premiums for supplemental benefits are paid by retirees. The survey supplement also provided an opportunity to obtain some early indications of how employers were thinking about how they might respond to the passage of the Medicare Modernization Act (MMA).

A description of the survey methodology is available in the report on the full employer survey, *The Kaiser Family Foundation and Health Research and Education Trust, Employer Health Benefits Annual Survey, 2004 Annual Survey*. Menlo Park, CA, and Chicago, IL, 2004. The report is available at <http://www.kff.org/insurance/7148/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=46288>.

**Chart 6-1. The percentage of firms with 200 or more workers offering retiree health benefits, 1988–2004**

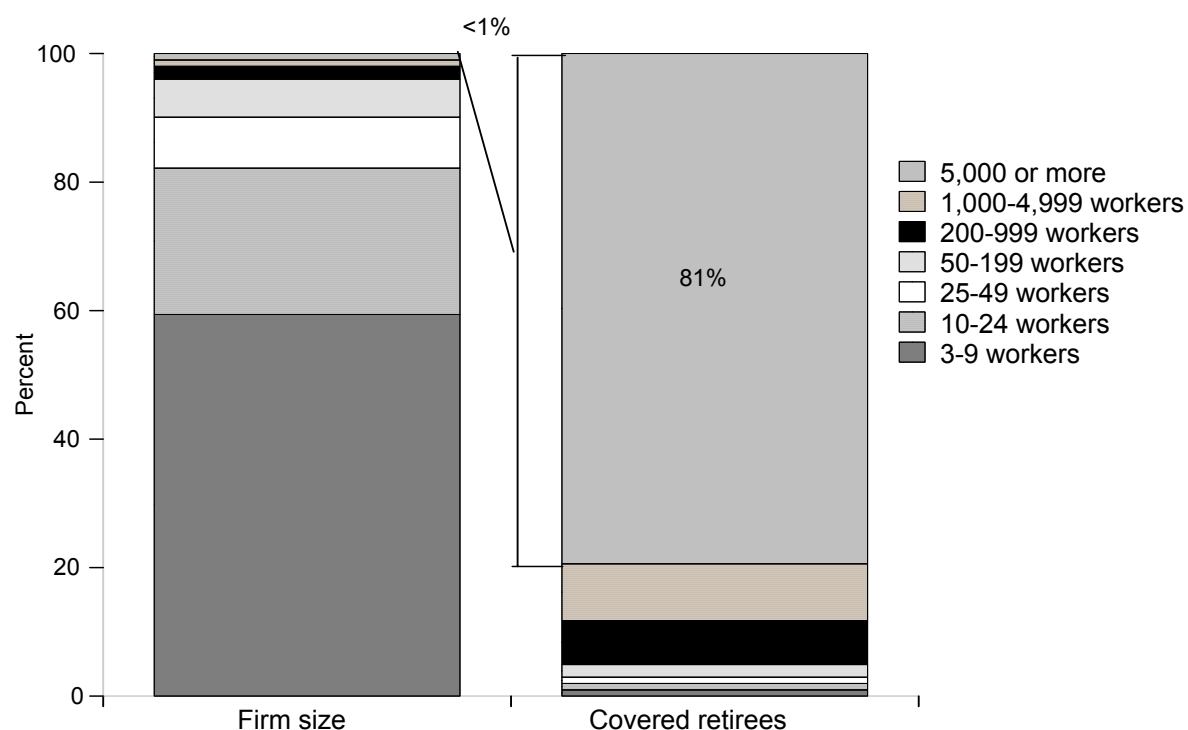


Note: Weighted by employers. Tests found no significant differences from the previous year among all large firms at  $p < 0.05$ .

Source: MedPAC Survey of Employer-Sponsored Retiree Health Benefits: 2004; KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003; KPMG Survey of Employer-Sponsored Health Benefits: 1991, 1993, 1995, 1998; HIAA Survey of Employer-Sponsored Health Benefits: 1998.

- After a sharp decrease in coverage in the 1980s, the percent of all U.S. firms with 200 or more employees offering health insurance to their retirees leveled off at about 36 percent. The decline occurred after the 1990 change in Federal Accounting Standards Board accounting rules requiring employers to include the future costs of retiree health benefits in their financial accounting statements.

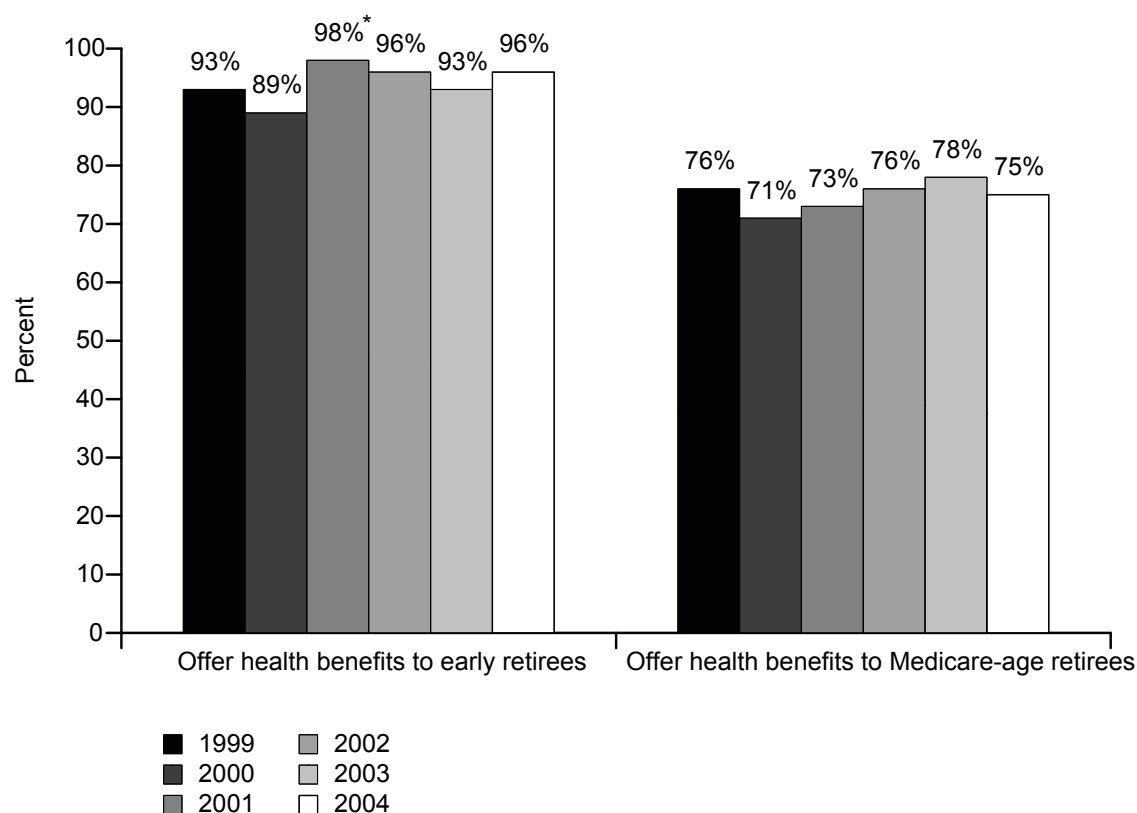
**Chart 6-2. Distribution of firms and retirees covered by health benefits, by firm size, 2004**



Source: MedPAC Survey of Employer-Sponsored Retiree Health Benefits, 2004.

- Eighty-one percent of Medicare-age retirees with employer-sponsored health benefits worked for firms with 5,000 or more employees.

**Chart 6-3. Firms offered health benefits to early retirees more often than to Medicare-age retirees, 1999–2004**

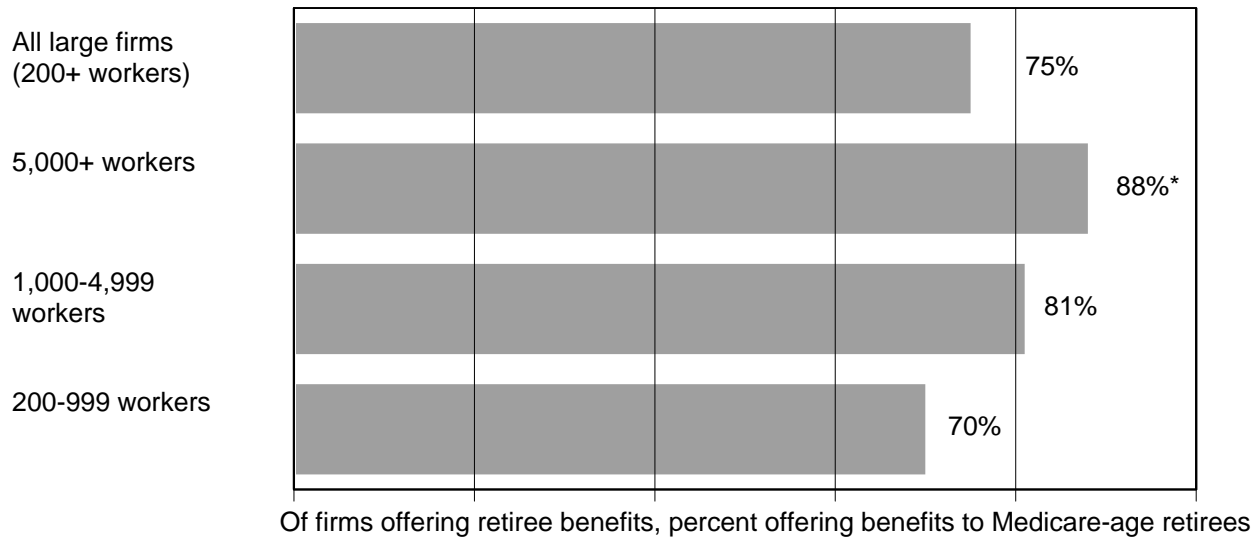


Note: Weighted by employers.  
 \*Significant from all large firms at  $p < 0.05$

Source: MedPAC Survey of Employer-Sponsored Retiree Health Benefits: 2004; KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999–2003.

- For some employers, the primary focus of retiree health benefits is the early retiree population. About three-fourths of employers that offer retiree health benefits extend these benefits to retirees who have reached Medicare age. This proportion has remained relatively stable over the past five years.

**Chart 6-4. Jumbo firms were the most likely to offer health benefits to Medicare-age retirees in 2004**

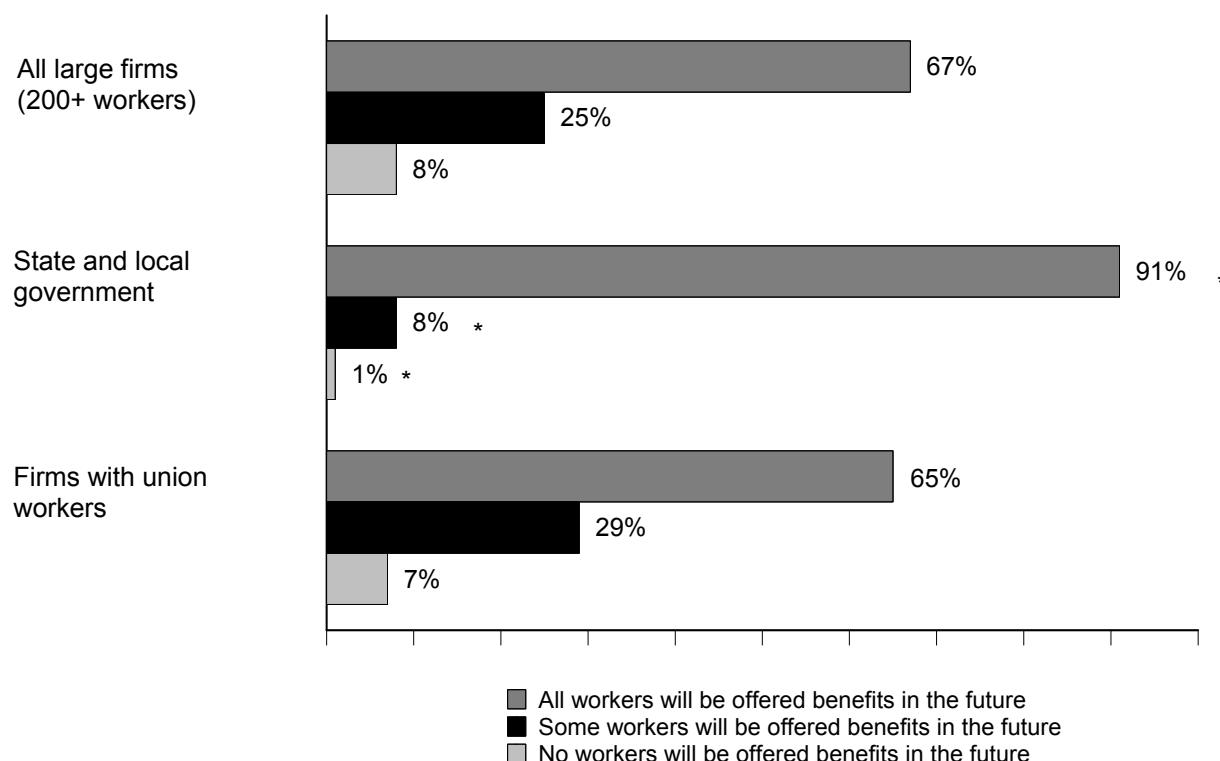


Note: Weighted by employers.

\*Significant from all large firms at  $p < 0.05$

- Among the firms that offer health benefits to active workers or retirees, the largest firms—so-called “jumbo” firms with 5,000 or more workers—are the most likely to offer retiree health benefits to Medicare-age retirees.

**Chart 6-5. Two-thirds of workers in firms that offered supplemental retiree health benefits in 2004 will be offered those benefits after they retire and enroll in Medicare**



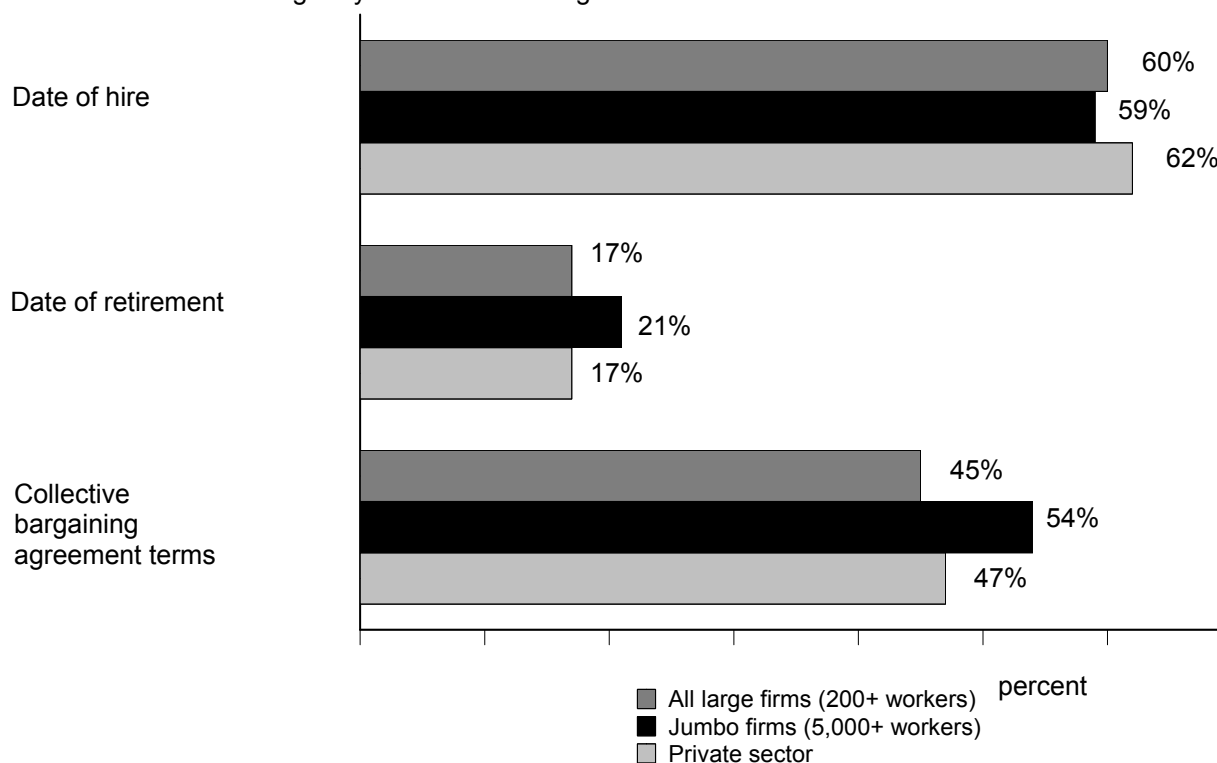
Note: Categories depicted on the chart are not mutually exclusive. "Firms with union workers" is defined in the survey as having any employees who are under collective bargaining agreements. Weighted by active workers.  
 \*Significant from all large firms at  $p < 0.05$

- About two-thirds of active workers in firms offering retiree health benefits will be eligible to receive them when they retire and reach Medicare age.
- State and local government workers are more likely than those in the private sector to be eligible for these benefits after they retire.
- A small proportion of active workers in firms now offering benefits to retirees—about 8 percent—are in firms that report that none of their current workforce will be eligible for supplemental health benefits in the future.



**Chart 6-6. Date of hire and union agreements often determine future retirees' eligibility for health insurance coverage**

How firms determine eligibility for retiree coverage



Note: Weighted by active workers. Tests found no significant difference from "All large firms" at  $p < 0.05$ .

- Among firms that will not be offering retiree health benefits to all their active workers upon retirement, most workers' eligibility for the benefits will depend on whether they were hired before a specific cut-off date.
- Collective bargaining terms will be a factor in determining eligibility for about half of the workers in these firms.
- Date of retirement will be a factor in determining eligibility for about one in five workers.

**Chart 6-7. In 2004, firms reported they are more likely to eliminate benefits for new hires than for active employees who have not yet retired**

All large firms <i>In the next 2 years:</i>	Very likely	Somewhat likely	Somewhat unlikely	Very unlikely	Don't know
Eliminate Medicare-age retiree health benefits for new hires	<b>17%</b>	<b>10%</b>	18%	53%	3%
Eliminate Medicare-age retiree health benefits for active employees who have not yet retired	<b>7%</b>	<b>6%</b>	21%	63%	3%

Note: Weighted by active workers. Tests found no significant difference from "All large firms" at  $p < 0.05$ .

- About one-fourth of firms currently offering retiree health benefits to Medicare-age retirees reported that it is likely or somewhat likely that they would eliminate retiree health benefits for new hires in the next two years; 13 percent indicated they might eliminate retiree health benefits for active employees.

**Chart 6-8. Medicare-age retirees paid about a quarter of their health benefit premiums in 2004**

	Monthly total premium <sup>a</sup>	Enrollee premium	Enrollee contribution as a percent of total premium
All large firms	\$276	\$68	25%
5,000+ workers	268	58	23
1,000-4,999 workers	297	122*	44*
200-999 workers	348*	139	40

Note: Weighted by retirees. All numbers reflect single coverage.

<sup>a</sup> Monthly premium for plan with the largest number of Medicare-age retirees.

\*Significant from all large firms at  $p < 0.05$ .

- Premiums for retirees who worked for firms with less than 1,000 workers are higher.
- The lower premiums of employees of jumbo firms may reflect economies associated with larger risk pools.

## Chart 6-9. Most Medicare-age retirees contribute to premiums for health benefits

	Employer pays full premium	Retiree pays full premium
All large firms, 2004	32%	5%
5,000+ workers	32	3
1,000-4,999 workers	34	19*
200-999 workers	25	11
Union workers	37	5
Nonunion worker	7*	7

Note: Weighted by retirees.

\*Significant difference from all large firms at  $p < 0.05$ .

- Employers pay the full premium for almost one-third of retirees.
- Five percent of retirees pay the full premium.
- Retirees from firms with 1,000-4,999 workers and from nonunion firms are more likely to pay the full premium than retirees as a whole.

**Chart 6-10. Most Medicare-age retirees had tiered prescription drug cost sharing in 2004**

	Percent of enrollees in plans with different drug coverage structures			
	4-Tier	3-Tier	2-Tier	Same for all drugs
State and local government	1%	40%	40%	18%
Has union workers	2	46	34	17
5,000+ workers	2	50	32	16
Tiered benefits among active workers in all large firms, 2004 <sup>a</sup>	3%	62%	28%	6%

Note: Weighted by retirees. Tests found no significant difference from all large firms at  $p < 0.05$ .

<sup>a</sup> KFF/HRET Survey of Employer-Sponsored Retiree Health Benefits: 2004.

- Tiered systems vary cost-sharing for some categories of drugs. Although retiree benefits are less likely to have tiered cost sharing than active worker plans, most (83 percent) do have some form of tiered structure. There are no statistically significant differences related to firm size, unionization, or between private versus state or local government firms.
- The survey also found (not shown on this chart) that retiree plans were more likely to have a separate drug deductible than active worker plans (26 percent compared to 8 percent). The average drug deductible was lower for retiree plans (\$103) than for active workers (\$161).

## Chart 6-11. Retirees and active workers are likely to pay a larger share of their health benefit premium

Likelihood of increases in workers' premium share through 2005 by firm size:	Very likely	Somewhat likely	Somewhat unlikely	Very unlikely	Don't know
All large firms	65%	8%	6%	20%	<1%
5,000+ workers	67	7	7	19	<1
1,000-4,999 workers	63	7	2	29	1
200-999 workers	48	27	4	19	2

Note: The 2004 Kaiser HRET survey found that 61 percent of active workers with health coverage were "very likely," and 29 percent were "somewhat likely," to pay more for premiums in the next 2 years. Weighted by retirees. Tests found no significant difference from all large firms at  $p < 0.05$ .

- Most firms reported that they will be very likely or somewhat likely to require retirees to pay a larger proportion of the premium for health benefits over the next two years; 73 percent of retirees will likely pay a larger share.
- There are no significant differences in planned increases associated with firm size.

## Web links. Retiree health benefits

- The Kaiser/Hewitt 2004 survey on retiree health benefits documents current trends and the future outlook for retiree health benefits.

<http://www.kff.org/medicare/7194/index.cfm>

- The Government Accountability Office (GAO) conducted an MMA-mandated study on the trends in employment-based retiree health coverage prior to the MMA and the MMA prescription drug options that employers and plan sponsors will pursue.

<http://www.gao.gov/new.items/d05205.pdf>

- The Employee Benefit Research Institute provides information on a variety of employee benefit issues.

<http://www.ebri.org>

